

## Equipment and Real Estate Leases

**Authority** This Guide Memo was approved by the Provost, and the Vice President for Business Affairs and Chief Financial Officer (“CFO”).

**Summary** This Guide Memo describes policies that apply to equipment and real estate leases. Capital and operating lease liabilities utilize the University’s debt capacity. All uses of debt must comply with the University’s debt policy and require prior approval. The only parties authorized to execute documents which commit Stanford to a lease obligation are: the Director of Procurement and the CFO for equipment leases; the Vice President for Land, Buildings & Real Estate; the Managing Director, Real Estate and the Provost for real estate leases. See Administrative Guide Memo 51, <http://adminguide.stanford.edu/51.pdf>, Procurement Policies, section 1, Authority to Commit University Monies, for relevant policies.

Approvals, requisition processes and reporting requirements are included.

1. DEFINITIONS AND TERMS
2. EQUIPMENT LEASES
3. REAL ESTATE LEASES

### 1. DEFINITIONS AND TERMS

**a. Leases** – Leases are contracts under which a lessee has committed to pay stipulated cash payments for the use of an asset (either equipment or real estate) for a specific period of time. For the purposes of this Memo, a lease is considered to be the commitment to pay for the use of an asset for longer than one year, with total contracted cash payments over the term of the lease of \$5,000 or greater.

Capital and operating leases are considered long-term financial obligations of the University. Therefore, all new leases and lease renewals, either equipment or real estate, are considered a use of the University’s debt capacity.

**b. Rentals** – Commitments not meeting these qualifications should be considered rentals which are not subject to this policy.

**c. Capital Lease** – An equipment lease is capitalized if the total anticipated contracted cash payments over the term of the lease, excluding any transportation costs, are greater than or equal to \$200,000, on a per contract basis, and at least one of the following criteria is met:

- By the end of the lease term, ownership of the leased property is transferred to Stanford
- The lease contains a bargain purchase option that Stanford reasonably expects to exercise
- The lease term is substantially (75% or more) equal to the estimated useful life of the leased property
- At the inception of the lease, the value of the minimum lease payments is 90% or more of the fair value of the leased property.

Capital leases are reported as an asset and a liability on Stanford’s financial statements and interest and depreciation are expensed.

**d. Operating Lease** – An operating lease does not meet the definition of a capital lease in 1.c above. Operating leases payments are expensed as incurred.

## 2. EQUIPMENT LEASES

- a. **Approvals and Thresholds** – Equipment leases with total anticipated contracted cash payments over the term of the lease of \$200,000 and above must be approved by the CFO. Equipment leases with total contracted cash payments over the term of the lease under \$200,000 can be approved by managers with requisite expenditure authority in relationship to total contracted cash payments.
- b. **Approval Forms** – The Equipment Lease Approval form can be downloaded from the Gateway to Financial Activities web site at <http://fingate.stanford.edu/staff/capitalequip/forms.html>.
- c. **Board of Trustees Approval** – Equipment leases with total anticipated contracted cash payments of \$5,000,000 and above require approval by the Board of Trustees.
- d. **Requisition** – Following budget approval, departments must submit an online requisition for the total contracted cash payments over the term of the lease to Procurement in Oracle Financials using the Standard.Lease category.
- e. **Lease Terms** – Procurement is responsible for negotiating equipment lease terms. Equipment leases must be signed and executed by the Director of Procurement or the CFO.
- f. **Reporting Requirements** – Departmental Property Administrators are responsible for establishing and maintaining property records for leased equipment in the Sunflower Asset Management System. Leased equipment must be tagged and tracked according to the policies of the Property Management Office at [http://ora.stanford.edu/menu\\_property/default.asp](http://ora.stanford.edu/menu_property/default.asp).

Departments must provide the Controller's Office by September 30 each year, a certificate and a schedule of all equipment lease obligations to assist with the preparation of the University's financial statements and the property tax-exemption application. Reporting forms for equipment lease obligations can be downloaded from the Gateway to Financial Activities web site at <http://fingate.stanford.edu/staff/capitalequip/forms.html>.

- g. **Return of Equipment** – Unless the department wishes to buy the equipment, a memo to Procurement is sufficient to return the item at the end of the lease. Procurement will notify the lessor.
- h. **Equipment Purchase at the End of the Agreement** – To buy equipment at the end of a lease, the department must submit a new online requisition, using the Standard. Capital Equipment category and referencing the original lease purchase order number.
- i. **Receiving Equipment** – The department must inspect, verify and document the condition of leased equipment when received. Online receiving in Oracle Financials is required for leased equipment. A record for each asset must be entered into the Sunflower Asset Management System within 30 days of receipt.
- j. **Insurance** – Stanford's high deductible insurance coverage makes it unlikely that the University's insurance carrier would pay for any loss or damage. Therefore, lessor's insurance for equipment should cover all aspects of damage and injury. For more information, contact the Director of Risk Management.
- k. **Change of Terms** – Departments must observe the start and stop dates of the lease. Using the equipment outside the terms of the agreement has significant contractual implications and may subject Stanford to additional rental charges, early termination charges, and other liabilities. The lessor's insurance may be valid only during the stated period. To terminate an equipment lease early, the department must contact the assigned buyer in Procurement.
- l. **Renewals and Extensions** – Departments must submit an online requisition to Procurement to extend the duration or renew the term of a lease.

### 3. REAL ESTATE LEASES

- a. **Approval Process and Thresholds** – All real estate leases must be included as a capital request in the Capital Planning Process. The Capital Planning Process is managed by the Vice President for Land, Buildings & Real Estate and occurs in conjunction with the annual budgeting process for the University. Departments are required to submit their capital plans and requests for debt to the Vice President for Land, Buildings & Real Estate for approval.

Real estate lease searches and/or negotiations initiated outside the Capital Planning Process must be approved by the Vice President for Land, Buildings & Real Estate.

Any real estate leases, not included in the Trustee-approved Capital Budget, require separate approval from (1) the Vice President for Land, Buildings & Real Estate if the total anticipated contracted cash payments over the term of the lease are under \$1,000,000, or (2), the Provost if the total anticipated contracted cash payments are \$1,000,000 or above.

- b. **Approval Forms** – Real estate lease approval forms can be downloaded from the Land, Buildings & Real Estate website, <http://lbre.stanford.edu/>.
- c. **Board of Trustees Approval** – Real estate leases with total contracted cash payments of \$5,000,000 and above require approval by the Board of Trustees.
- d. **Requisition** – Following approval and prior to negotiating lease terms, departments must submit an off-campus lease requisition form to the Vice President for Land, Buildings & Real Estate. The form can be downloaded from <http://lbre.stanford.edu/>. The Vice President will direct the request to the Managing Director, Real Estate for target locations within the Stanford Research Park or the Welch Road corridor. The Vice President will advise in the search, or direct the requestor to an approved real estate advisor for other target locations.
- e. **Lease Terms** – The Vice President for Land, Buildings & Real Estate and/or the Managing Director, Real Estate will assist departments in negotiating lease terms. Real estate leases must be executed by the Vice President for Land, Buildings & Real Estate or the Managing Director, Real Estate.

Material exceptions to standard terms must be reviewed and approved by the Office of the General Counsel.

Upon execution of the lease, departments must request a Purchase Order or BU number from Procurement for the total contracted cash payments over the term of the lease, to ensure proper recording of the transaction and to enable payments.

- f. **Reporting Requirements** – Departments must provide the Controller's Office and Land, Buildings & Real Estate by September 30 each year, a certificate and a schedule of all real estate lease obligations to assist with the preparation of the University's financial statements and the property tax-exemption application. Reporting forms for real estate lease obligations can be downloaded from the Gateway to Financial Activities web site at <http://fingate.stanford.edu/staff/capitalequip/forms.html>.
- g. **Insurance** – Lessor's insurance for real estate leases should cover damage to the building and premises and injury occurring in the building's common areas. For more information, contact the Director of Risk Management.
- h. **Change of Terms** – Departments must observe the start and stop dates of the lease. Occupying the real estate property outside the terms of the agreement has significant contractual implications and may subject Stanford to additional rental charges, early termination charges, and other liabilities. The lessor's insurance may be valid only during the stated period. To terminate a real estate lease early, the department must contact the Vice President for Land, Buildings & Real Estate.
- i. **Renewals and Extensions** – Departments must follow the approval process to extend the duration of the original contract, exercise options included in the original contract, or renew a real estate lease.